FEDERAL LUNCH-N-LEARN PMA Series

Strategic Sourcing & Spend Analysis

May 22, 2006

Strategic Sourcing Origins

- **OMB Letter of May 20, 2005** – **"the real mandate"** – directed agencies to establish formal strategic sourcing programs; development of strategic sourcing plan; placed CAO's in charge; required identification of top three commodities to source; requires annual report to OFPP
- **Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition**, GAO-03-935 (Sep. 10, 2003)
- **Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings**, GAO-03-661 (Jun. 9, 2003)
- **Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services**, GAO-02-230 (Jan. 18, 2002)
- **Satellite Communications: Strategic Approach Needed for DOD's Procurement of Commercial Satellite Bandwidth**, GAO-04-206 (Dec. 10, 2003)
- **Postal Service: Progress in Implementing Supply Chain Management Initiatives**, GAO-04-540 (anticipated, May 2004).
- **Contract Management: Taking a Strategic Approach to Improving Services Acquisition**, GAO-02-499T (Mar. 7, 2002)
- **Contract Management: Trends and Challenges in Acquiring Services**, GAO-01-753T (May 22, 2001)

What GAO Found

Company	2001 procurement spend	Procurement cost savings
IBM	$42.4 billion	Focuses on delivering competitive advantage year after year; reported saving hundreds of millions of dollars since 1994.
ChevronTexaco	$16 billion-$18 billion	Reported targeted savings of $300 million a year by 2003. After 2005, targeted savings of $1.3 billion a year.
Bausch & Lomb	$900 million	Saved a reported $20 million a year from 1998 to 2001; reduced suppliers from 20,000 to 13,500.
Delta Air Lines	$7 billion (approximate)	Reported saving more than $200 million in procurement costs since 2000.
Dell	$26 billion	Set goal to save 20% from its general procurement budget of $3 billion to $4 billion.

Strategic Sourcing Status

- Working – slowly (more to follow)
- All agencies are involved; working at different levels
- Few new strategic vehicles are in place
- Much more difficult than it appears
- Products vs services – focus on services
- **http://www.federaltimes.com/index.php?S=1574366**
  (Good article – summarizes status to date)

Currently, Federal Agencies are not fully leveraging opportunities to minimize acquisition costs for services

- Services account for more than half of most agency's total spend
- Agencies are not leveraging cross functional and cross department opportunities in order to minimize total acquisition costs
- Purchases are not coordinated across the agency departments
- Many suppliers have multiple contracts with agencies, supplying comparable services at different prices
- The capabilities of small businesses are not being

Strategic Sourcing Primer

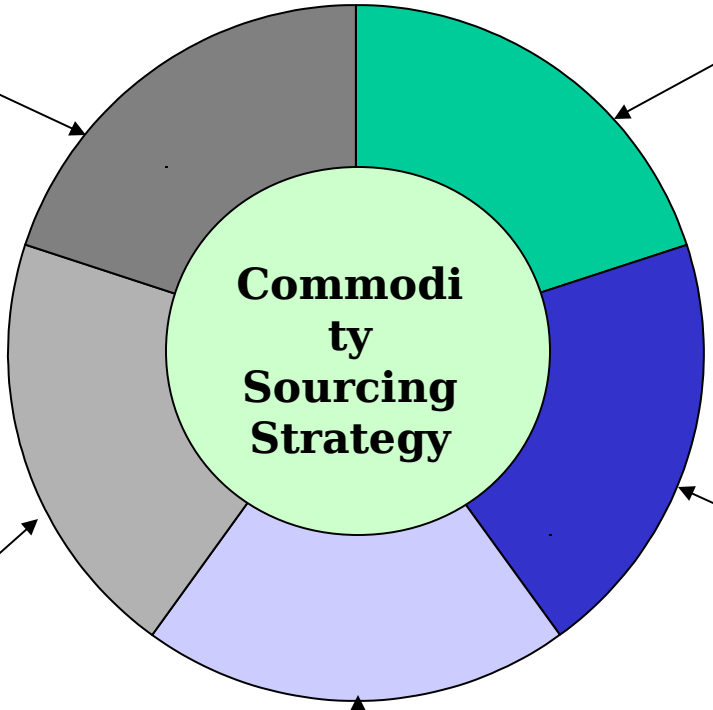
What is Strategic Sourcing??

Strategic Relationship

Establish integrated or close relationships with suppliers where both buyer and supplier work together, share information, collaborate and further each partner's goals

Best Value Analysis

Evaluate and model all costs and use negotiation tactics that increase transparency and maximize competition



Process Improvement

Identify opportunities to standardize and streamline business processes that will result in improved quality, reduced cycle times, and lower total cost of ownership

Demand Management

Address factors such as standards, requirements and policies to reduce costs related to internal demand.

Volume Leveraging

Aggregate like goods and/or services across organizational units in order to increase negotiation leverage and negotiate better pricing and terms and conditions

Strategic Sourcing Objectives

Objective 1: Establish Department-wide, cross-functional acquisition strategies.

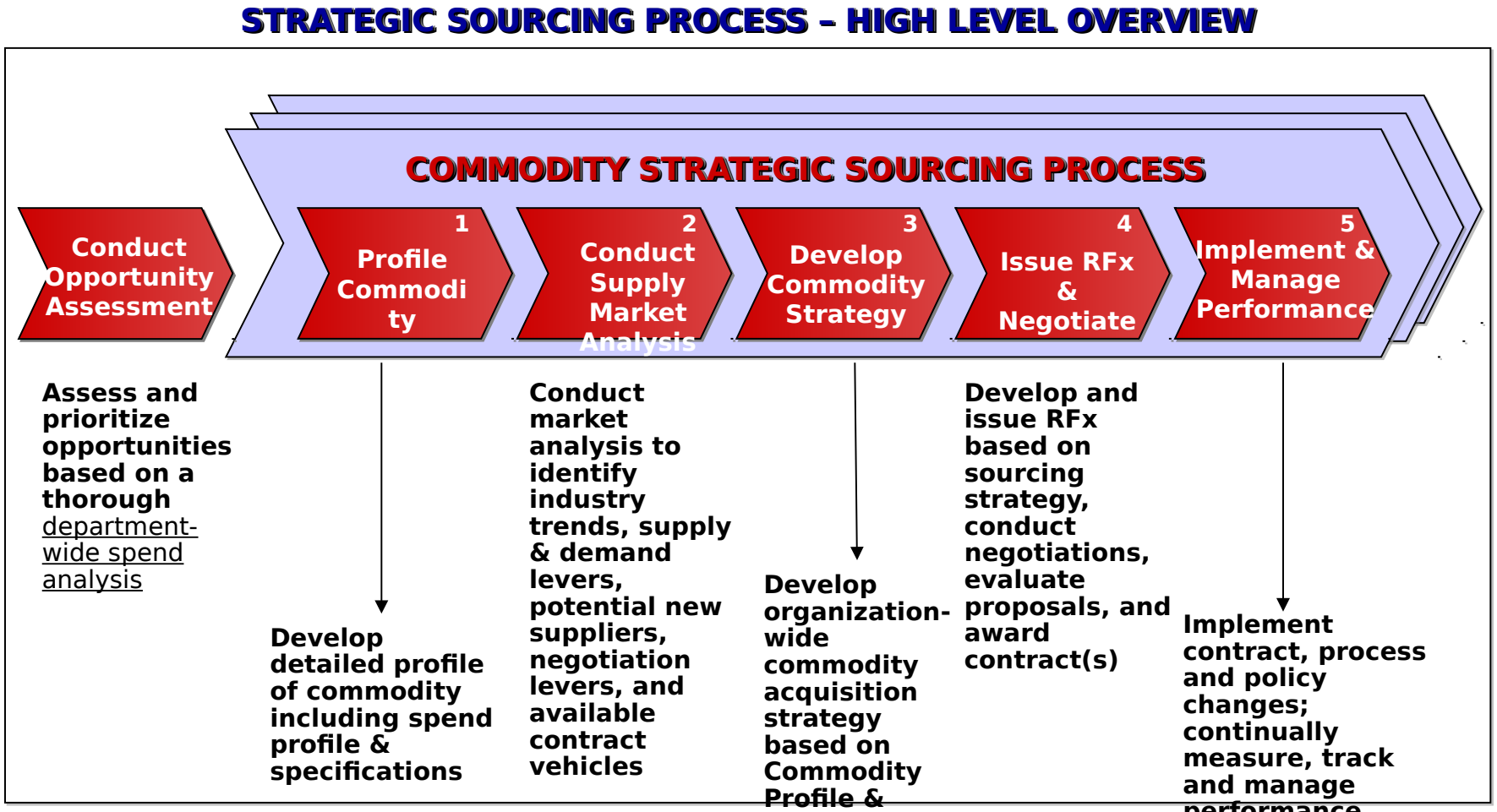
Objective 2: Reduce the Total Cost of Ownership for acquired goods and services.

Objective 3: Improve fulfillment of socio-economic acquisition goals.

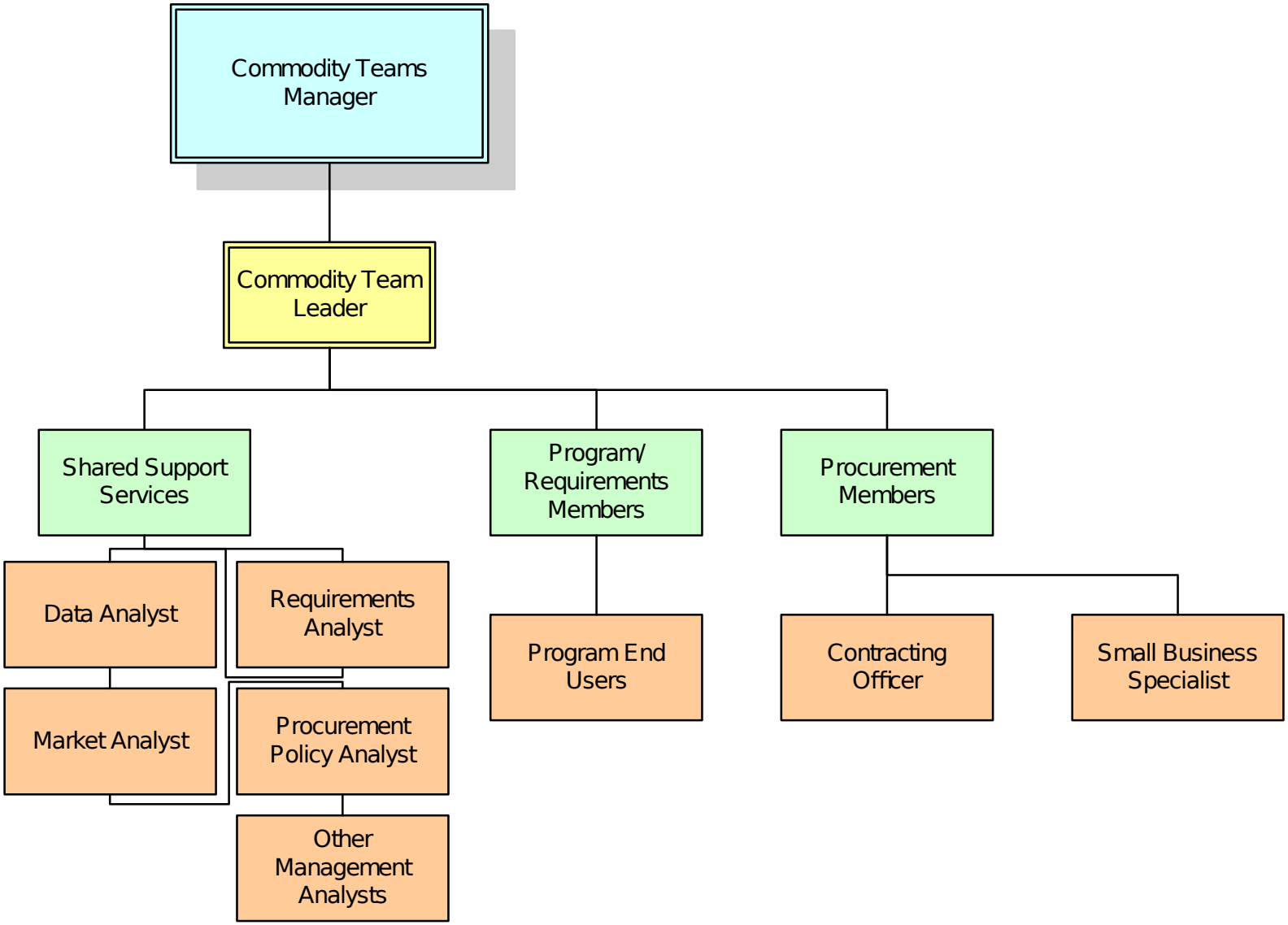
Objective 4: Standardize acquisition business processes.

Objective 5: Improve skills of Energy acquisition community.

The Commodity Strategy and Management Process


STRATEGIC SOURCING PROCESS – HIGH LEVEL OVERVIEW
COMMODITY STRATEGIC SOURCING PROCESS
Conduct Opportunity Assessment
1 Profile Commodity
2 Conduct Supply Market Analysis
3 Develop Commodity Strategy
4 Issue RFx & Negotiate
5 Implement & Manage Performance
Assess and prioritize opportunities based on a thorough department-wide spend analysis
Develop detailed profile of commodity including spend profile & specifications
Conduct market analysis to identify industry trends, supply & demand levers, potential new suppliers, negotiation levers, and available contract vehicles
Develop organization-wide commodity acquisition strategy based on Commodity Profile & Supply Market Analysis
Develop and issue RFx based on sourcing strategy, conduct negotiations, evaluate proposals, and award contract(s)
Implement contract, process and policy changes; continually measure, track and manage performance

Commodity Teams



Commodity Team Skills

- **Team Building** – Leadership, decision-making, influencing and compromising

- **Strategic Planning Skills** – Project scoping, goal-setting, and execution

- **Interpersonal Communication Skills** – Presentation, public speaking, listening, and writing

- **Technical Skills** – Web-enabled research and sourcing analysts

- **Broader Financial Skills** – Cost accounting and making the business case

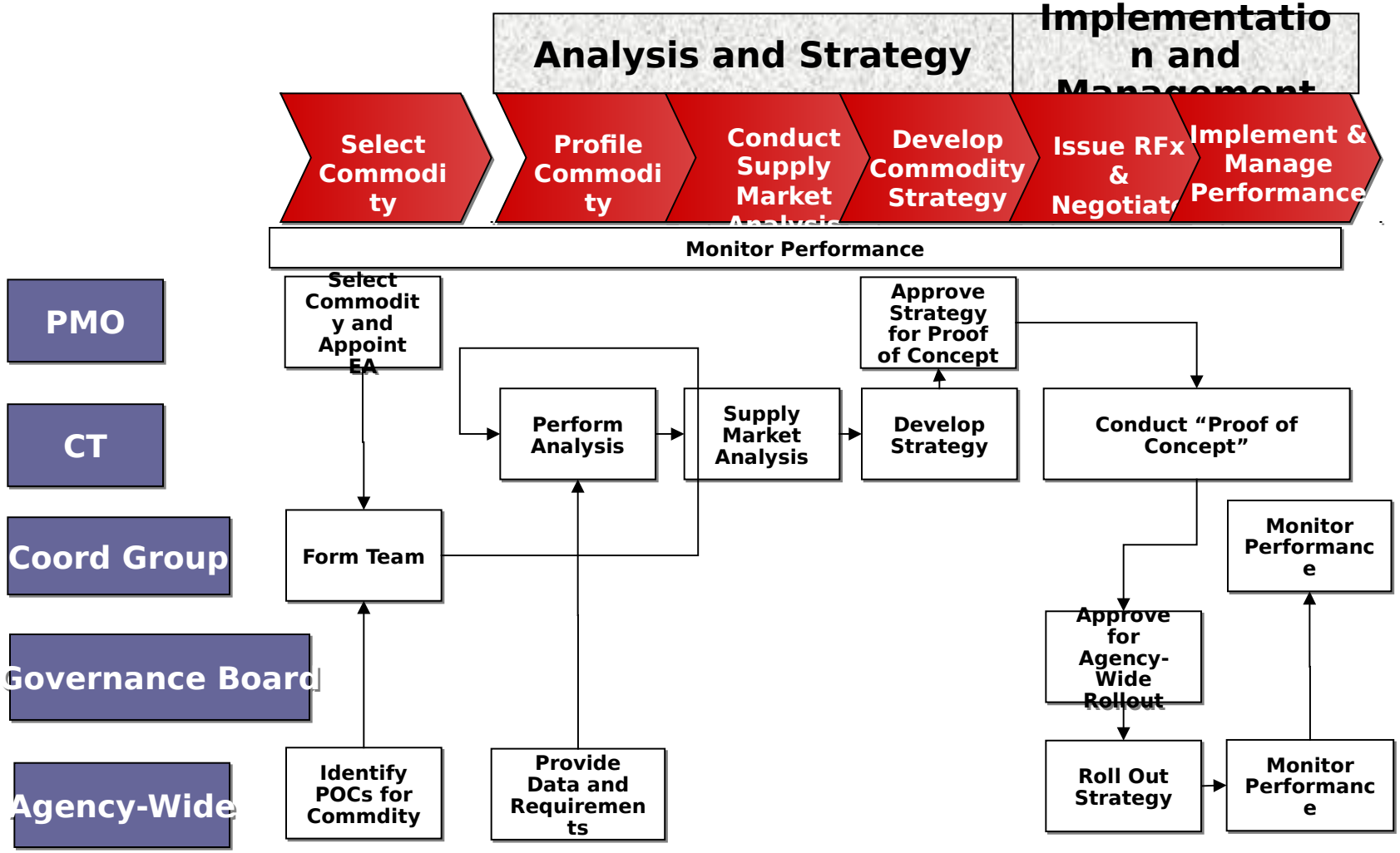
- **Relationship Management Skills** – Ethics, facilitation, conflict resolution, and creative problem solving

- **Legal Issues** – Contract writing, organizational conflict of interest

Governance

- Different structures utilized throughout agencies
- Success depends upon strong leadership/governance at the highest level
- May entail establishing a project management office (PMO); commodity teams manager; coordination group; a governance board of directors, etc..

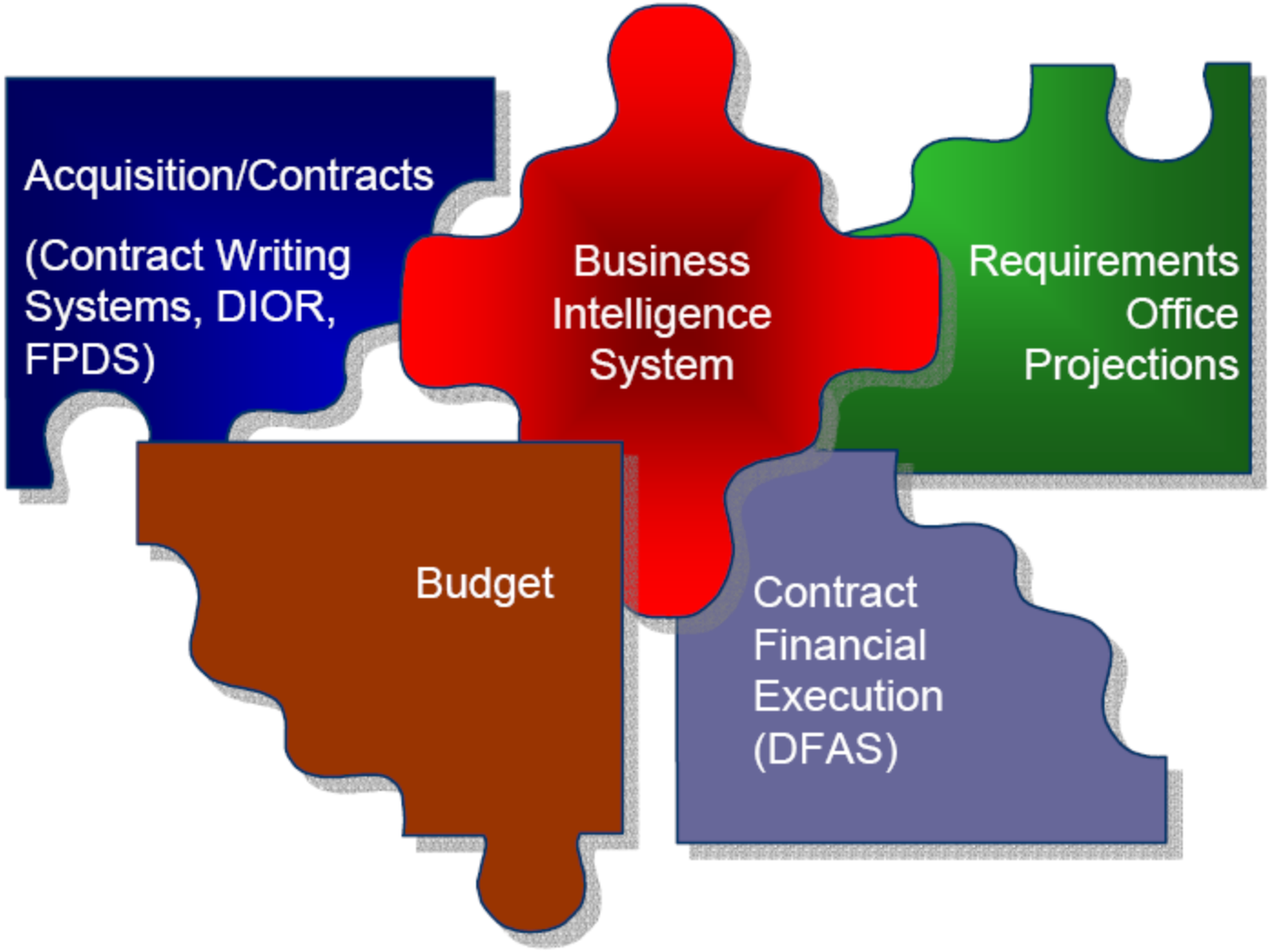
The Commodity Strategy and Management process will require interaction among all Program participants



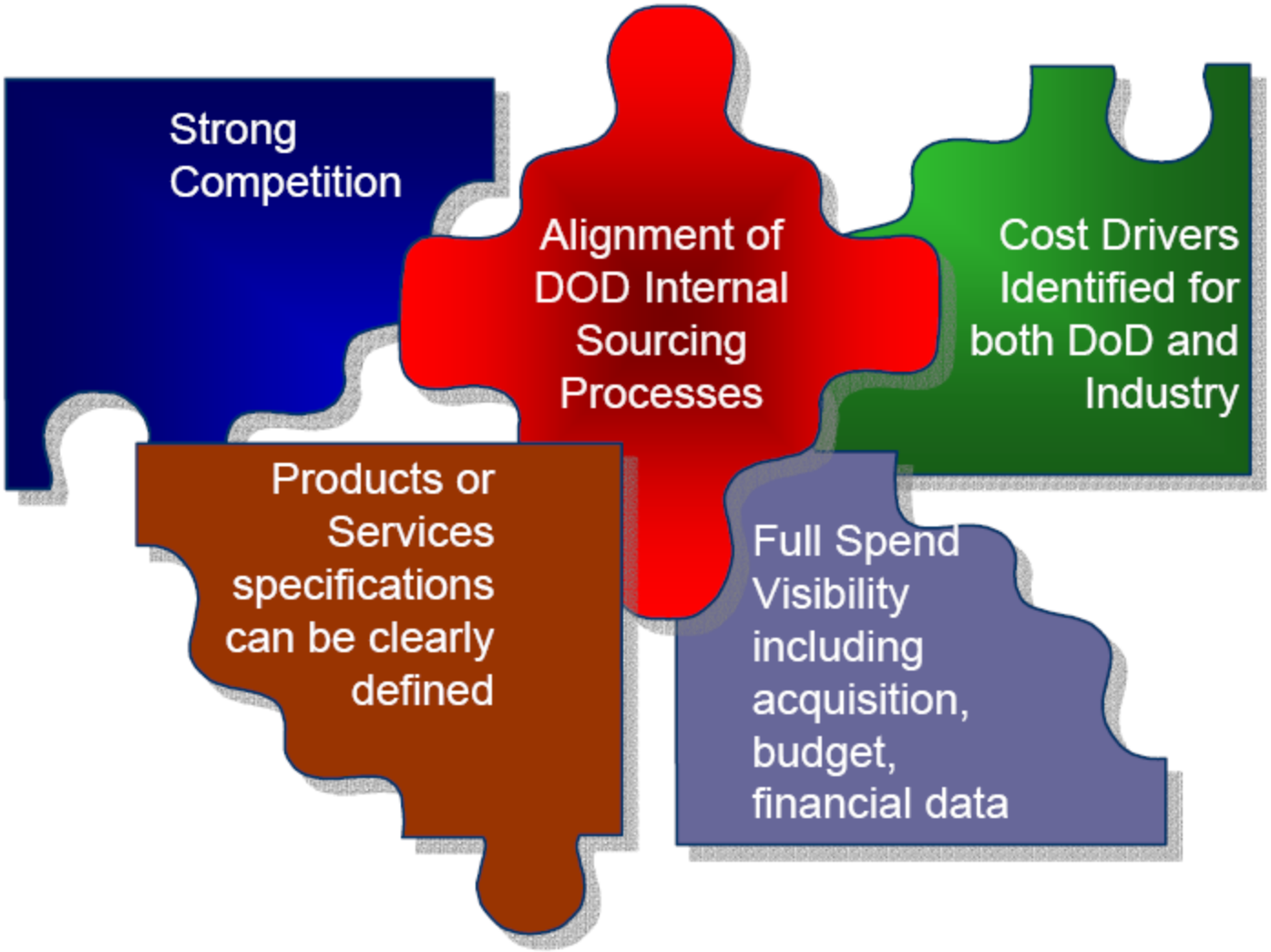
What are the benefits???

- **Enhanced performance**
- **Establishes “win-win” situation for government/contractor**
- **Enhances ability to manage socio-economic goals**
- **Allows for more efficient utilization of contracting officer/specialist resources – less time spent doing routine, repetitive activities**
- **Enhances procurement office status by creating a value-added business management function vice standard “buyer”**
- **Facilitates requirements collection and definition**
- **Increases efficiency of procurement process**
- **Increases customer satisfaction (internal and external)**
- **Increases visibility of funds expenditure**
- **Highly trained acquisition personnel (i.e. true business managers)**
- **Much more …**

Ideal Strategic Sourcing Information



Success Factors


Strong Competition
Alignment of DOD Internal Sourcing Processes
Cost Drivers Identified for both DoD and Industry
Products or Services specifications can be clearly defined
Full Spend Visibility including acquisition, budget, financial data

Commercial Success Factors

- Standardization of service categories
- Electronic catalogues
- High level of automation – reduced contracting visibility/action
- Mandatory utilization – justice for maverick spenders
- Rationalized vendor base
- Strong senior governance
- Skilled commodity team members conversant in all facets of the commodity

Applicable to government procurement??????

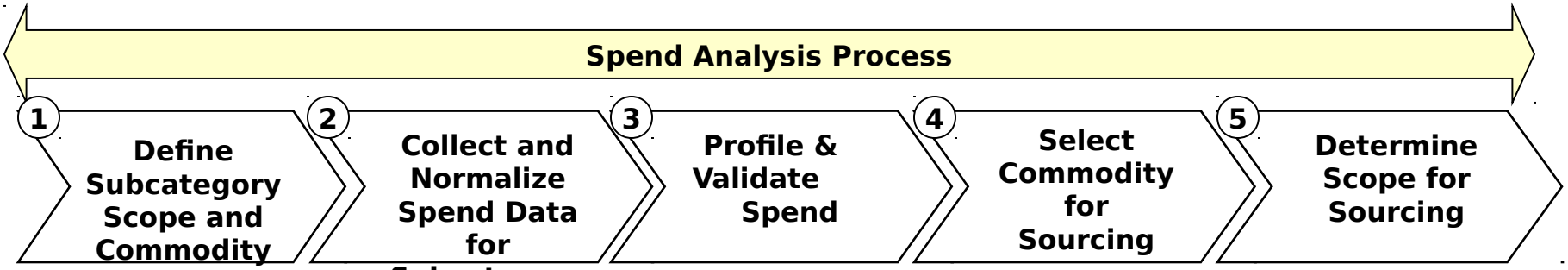
Spend Analysis

The Beginning

Where Does the Data Come From????

- FPDS (DD-350, SF-279)
- Business Intelligence Systems
- Contract Files
- Contracting Officers
- Contractors
- Web
- Others????

Generic five-step spend analysis process



Define Subcategory Scope and Commodity Structure

- Determine scope and definition of Sub-Category
- Create Commodity structure for Sub-Category
- Validate Commodity Structure with Agency Service Sourcing Team
- Develop initial criteria for Commodity analysis and validate with Agency Service Sourcing Team

Collect and Normalize Spend Data for Subcategory

- Identify Data Sets which contain data pertinent to Sub-Category (FPDS, BIS, P-Card, etc.)
- Cleanse and normalize data
- Tag CLIN level descriptions with Commodity codes
- Modify Commodity Structure where necessary and validate with Agency Service Sourcing Team

Profile & Validate Spend

- Profile sub-category(s) at the Commodity-level
- Validate actionable spend and verify with Service Sourcing Team(s)

Select Commodity for Sourcing

- Assess each Commodity based on determined criteria
- Recommend top commodity opportunities with best “Total Cost “ value proposition
- Present top commodity opportunities to Service Sourcing Team(s)
- Select Commodity for sourcing

Determine Scope for Sourcing

- Enrich data for selected Commodity
- Define scope of Commodity (regions, commands, etc.) based on additional data gathered
- Gather additional internal and external data to develop detailed profile for selected Commodity
- Utilize information gathered as input to Commodity Business Case

“Bucketing” Service Spend Categories

Construction Services

- Architect/Civil Engineering Services
- General/Buildings/Facilities
- Military Structures/Facilities

IT/Automation

- Systems Analysis/Development
- Telecommunications/Networking
- Systems Acquisition Support
- Data/Security Services
- **Miscellaneous/General IT Services**

Facilities

- Facilities Maintenance/ Management
- Purchase/Lease/Rental of Facilities
- Operation of Government Facilities
- Energy/Utilities

Medical/Health Services

- Lab Testing Services
- Medical Services

Equipment Management

- Maintenance/Repair – Defense
- Maintenance/Repair – Other
- Installation – Defense
- Installation – Other
- Lease/Rental – Defense
- Lease/Rental – Other
- Technical Rep. Srvcs – Defense
- Technical Rep. Srvcs – Other
- Quality Control/Insp. – Defense
- Quality Control/Insp. - Other

Natural Resources/Environ.

- Drilling/Exploratory Services
- Environmental Cleanup/Removal
- Misc. Resource & Conservation Svcs.
- Misc. Environmental Services/Support

Prof./Admin. Services

- Program Management
- Engineering/Technical Services.
- **Management/Advisory Services**
- **Administrative Support Services**
- **Miscellaneous Professional Svcs**

Education/Training

- Technical/Scientific/Mgmt. Training
- Educational Services
- Tuition/Fees
- Training Development
- Miscellaneous Education Svcs

Transportation/Travel

- Cargo/Freight/Transport Services
- Personnel Transport/Lodging
- Miscellaneous Travel Services

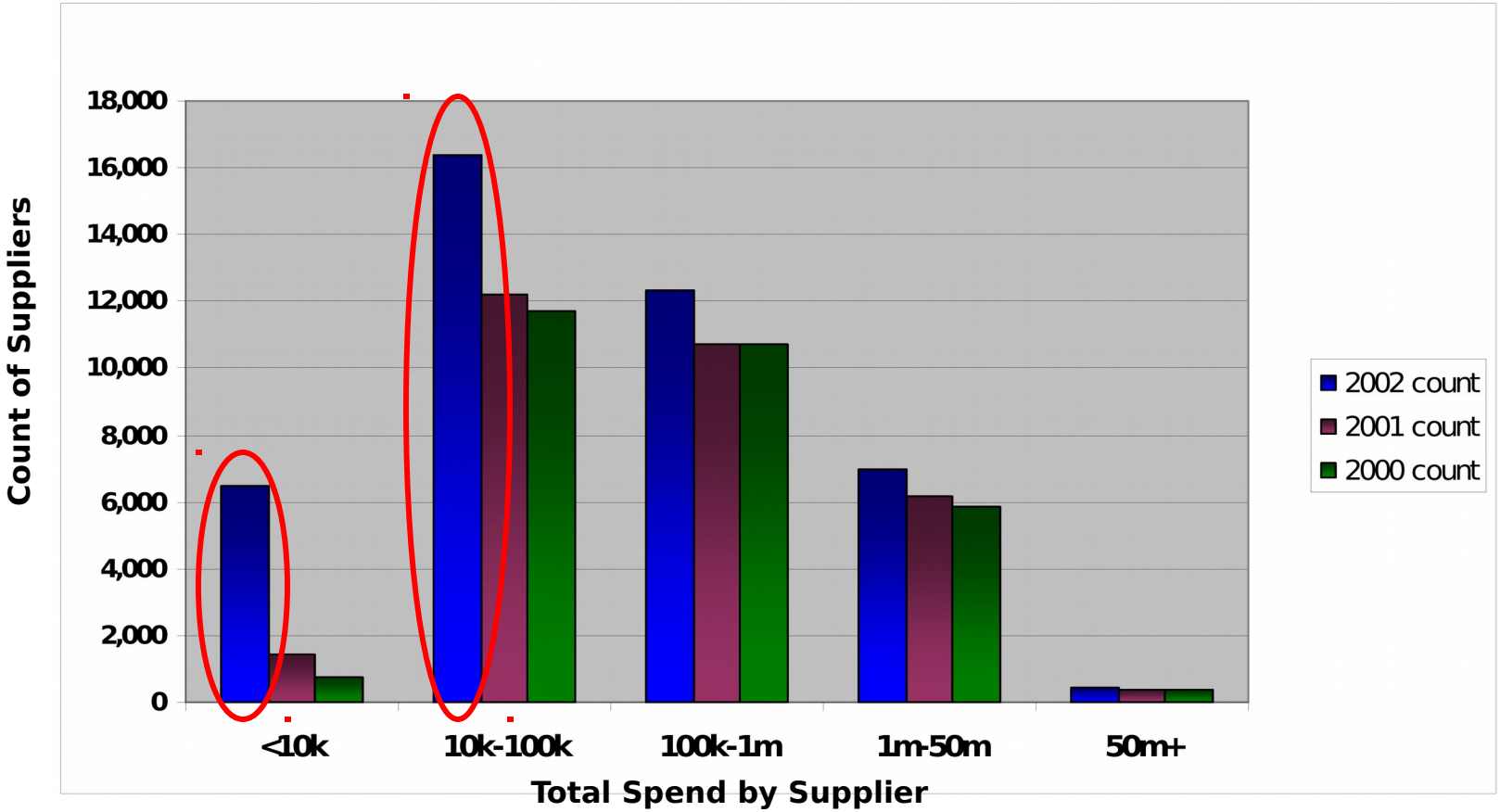
Special Studies/Analysis

- Environmental/ Agricultural
- General Sciences
- Financial/ Management/ Advisory
- Defense/ Military/ Security
- Miscellaneous Studies

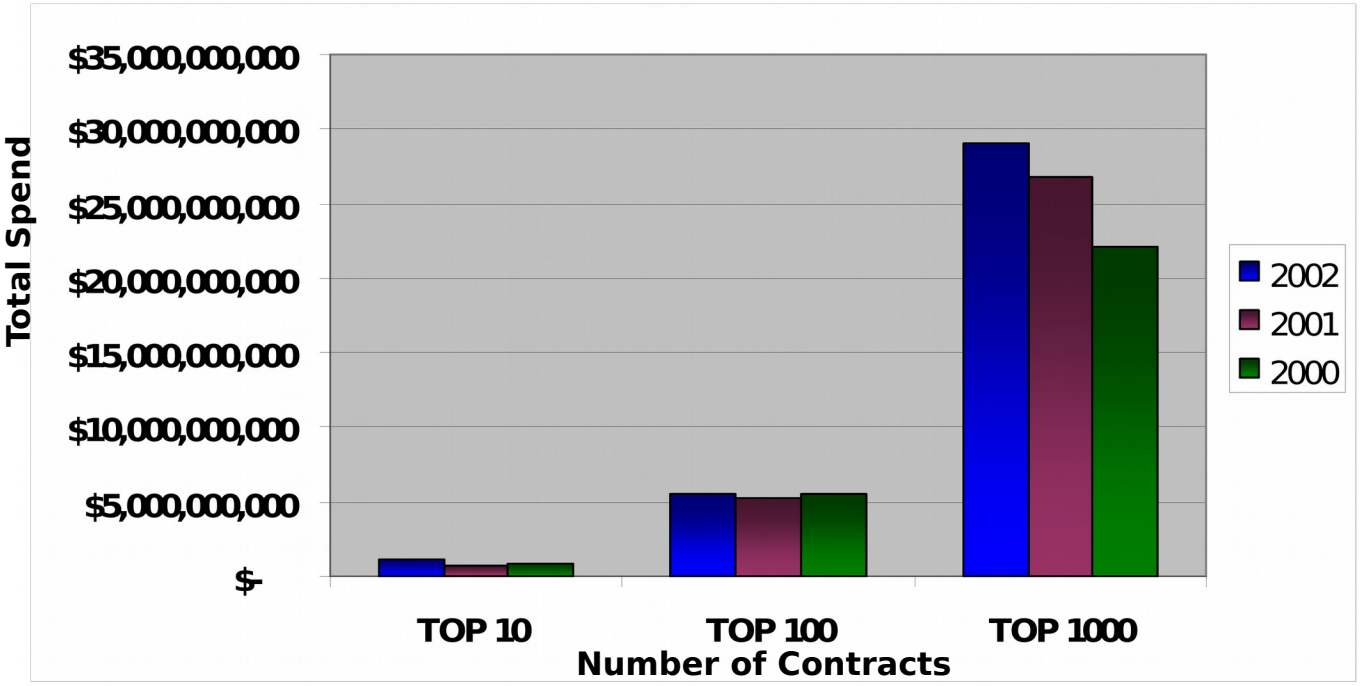
Misc/Other Services

- Social Services
- Salvage Services
- Photo/Mapping/Graphics Svcs

Number of Suppliers by Spend Trends

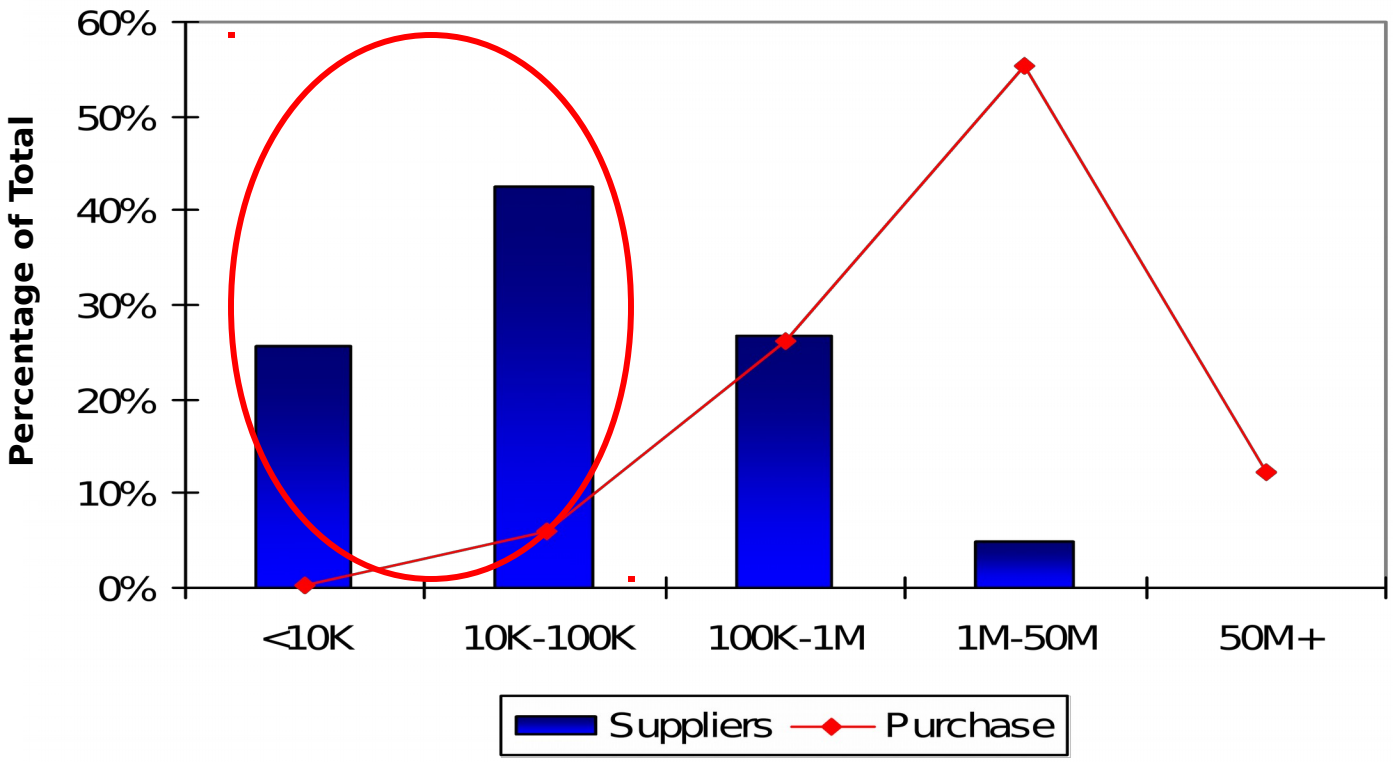


Contract Trends



The chart above shows consistency in spend concentration for the Total Spend for the Top 10 and 100 contracts from 2000-2002 with an increasing concentration for the Top 1000 contracts.

Services Suppliers by Contract Range



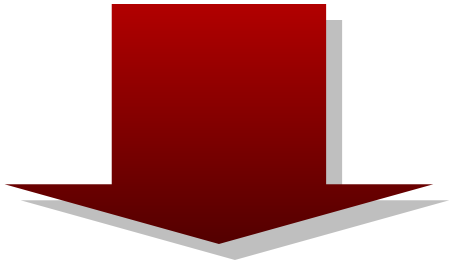
This agency spends less than $100,000 with more than 68% of its supply base!

Corporate Families

Corporation	Number of Family Members
A	77
B	57
C	54
D	54
E	47
F	42
J	41
K	35
L	35
M	35
N	32
O	32
P	30
Q	29
R	29
S	29
T	28
U	28
V	28
W	26

Industry Classification vs. Commodity Classification

SIC codes are assigned based on a business's operations. Therefore, these codes are industry specific. SIC codes can identify the industry in which a business operates but does not define the products that the business sells.



UNSPSC codes (United Nations Standard Product and Services Codes) are applied to products and services purchased by a company. These codes are assigned based on descriptions of items found in a company's Item Master file. These are product specific codes that are used to determine what is purchased.

Coding Examples

UNSPSC About UNSPSC

UNSPSC (United Nations Standard Product and Services Code) is a globally accepted commodity (Product and Services) classification system. GORMAN MANUFACTURING COMPANY, INC offers the following product(s) and service(s):

82151502 Lithographers services

NAICS About NAICS

Beginning in 1997, the **Standard Industrial Classification** (SIC) was replaced by the **North American Industry Classification System** (NAICS). This six digit code is a major revision that not only provides for newer industries, but also reorganizes the categories on a production/process-oriented basis. This new, uniform, industry-wide classification system has been designed as the index for statistical reporting of all economic activities of the U.S., Canada, and Mexico.

323110 Commercial Lithographic Printing

SIC About SIC

Based on information in our file, D&B has assigned this company an extended 8-digit SIC. D&B's use of 8-digit SICs enables us to be more specific to a company's operations than if we use the standard 4-digit code.

The 4-digit SIC numbers link to the description on the Occupational Safety & Health Administration (OSHA) Web site. Links open in a new browser window.

27520000 Commercial printing, lithographic

Spend Analysis Example

Administrative Services

Analysis of the spend data revealed significant issues that needed to be addressed

- **Several data issues existed within the utilized data sources, including:**
  - **Categorization**
    - DD-350 spend is categorized using the Product Service Code (PSC), which is not very specific and often results in spend being categorized in “Other”-type PSCs such as “Other Administrative Services”; this results in significant difficulty in determining “what” is being purchased
  - **Miscoding**
    - The largest amount of spend within the DD-350 was coded as “Other Administrative Services”; this spend typically belonged completely out of the Administrative Services Sub-Category or in a more specific Administrative Services bucket (i.e., Clerical Services)
    - Some of the spend within more specific Administrative Services buckets, such as Clerical Services, was incorrectly coded and needed to be removed from that bucket
  - **Lack of Meaningful Data**
    - Line Item data in the BIS systems meant to give clarity to “what” was being purchased was typically vague or unclear
    - Many offices across DoD are still not utilizing the BIS systems, resulting in an incomplete spend picture in these systems
    - Accurate data was not available that allowed for identification of the actual end users of the service being purchased
  - **Other Issues**
    - Purchases under $25K were not included in the data sources provided as they are not tracked in these systems
    - Some dollar amounts entered for specific contracts were incorrect which skewed the data until further analysis uncovered the errors

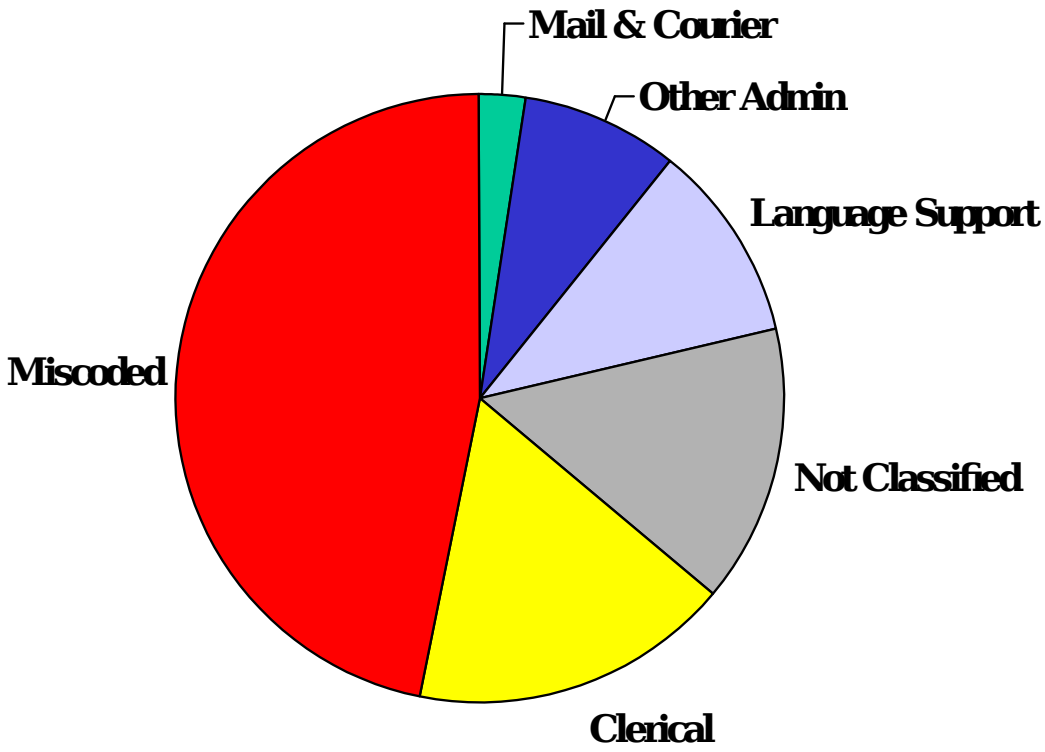
The data cleansing and normalization process required several automated and manual steps

- Utilized the D&B matching process to append the DUNS number to suppliers in the DD-350 to bring in additional views related to Diversity, Corporate Linkage, Dependency and Cross-Market analysis
- Performed data normalization on entire database to ensure that database contained clean records without duplicates and data errors
- Performed thorough comparisons between DD-350 and other data sources to ensure consistency of contract information
- Performed extensive analysis to categorize data into the established commodity structure

A lot of manual work!

Initial analysis of the data revealed that more than 67% of spend provided no insight into the commodity purchased and was classified as “other administrative services”

Nearly 70% of spend is within an ambiguous category!



The team utilized a three-pronged approach, encompassing various research methods, to gain insight into commodities purchased

Methods to Categorize Spend Data

Contract Research

- Commodity Team members categorized the spend by pulling actual executed contracts in order to determine:
  - Detailed information on what is being purchased
  - Vendor information
  - Contract terms and conditions
  - Other supporting data
- Contract spend that was not specific to a commodity (i.e., Clerical Support Services) was taken out of the total spend for that commodity

And

Supplier-Based Analysis

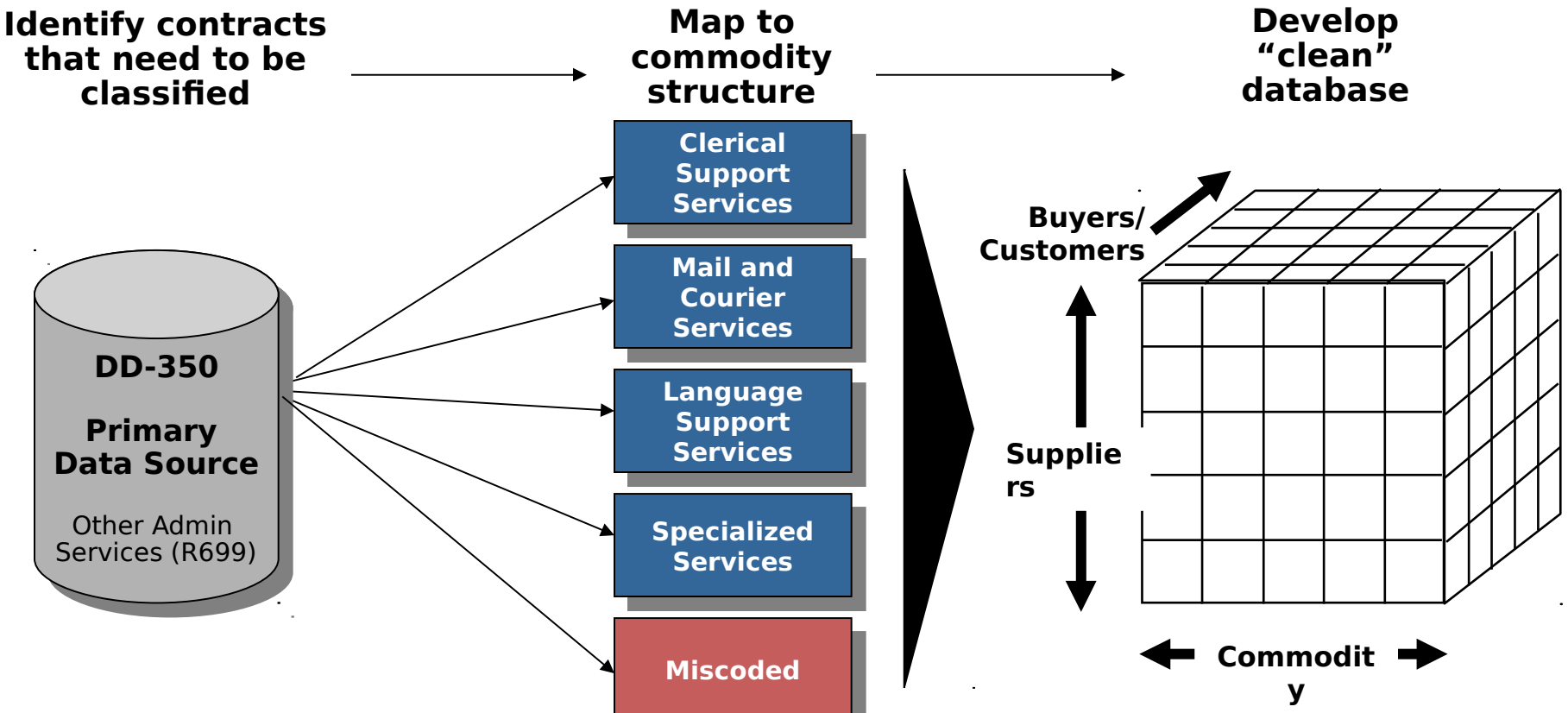
- Suppliers providing services were analyzed in in the following manner:
  - Utilized industry codes to determine services supplier typically provides
  - Conducted crosswalk from NAICS code to SIC code to assist in categorization
  - Utilized D&B Comprehensive Reports which contains allocation of services provided by firm
  - External research was utilized when clarity was still required for categorization

And

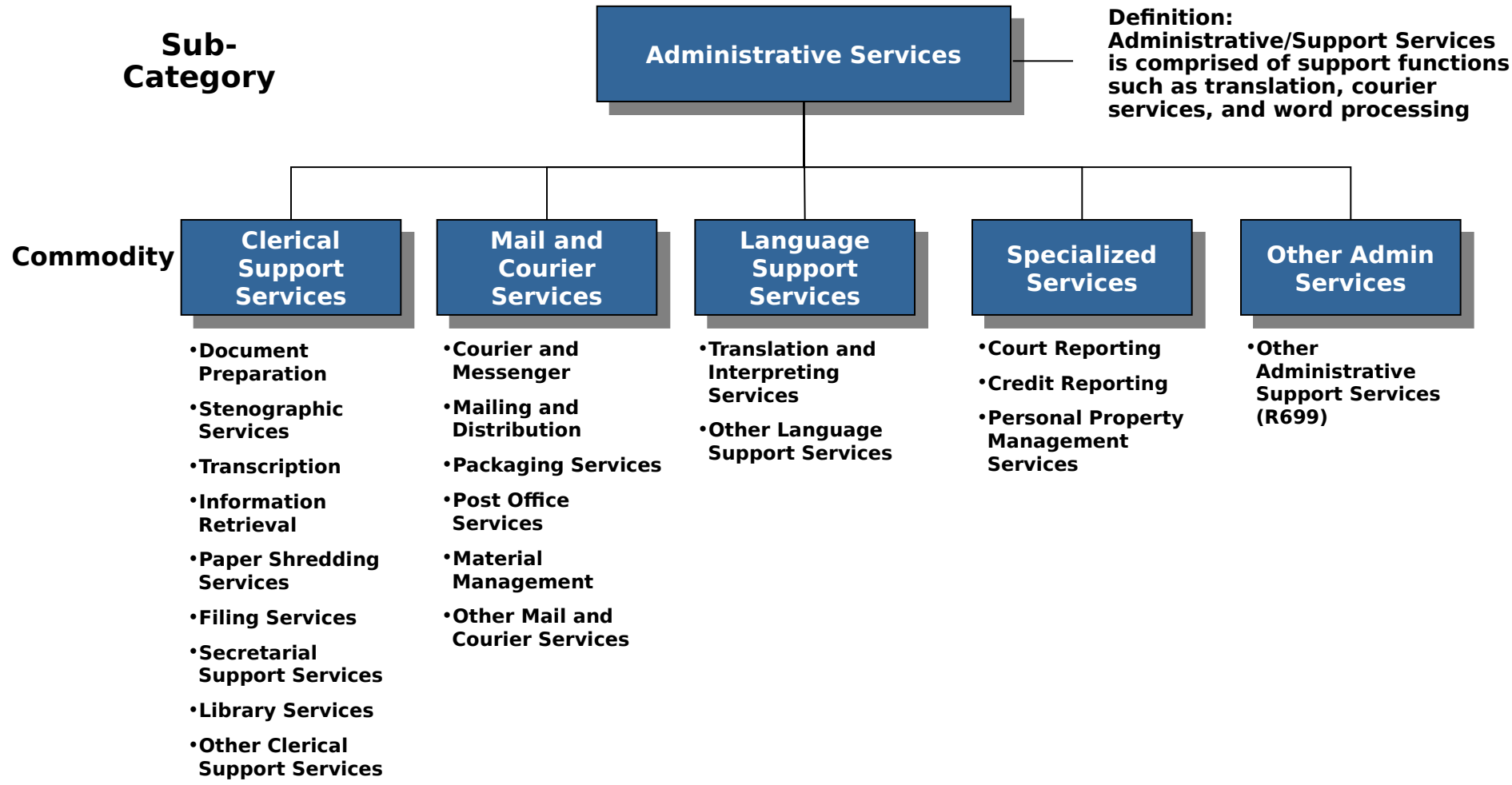
Other Research (Web, BIS, etc.)

- The top 80 (3699 contracts were analyzed for categorization through:
  - Web research based on Contract #
  - DD-350 and BIS analysis to determine if other factors exist to assist categorization (NAICS, CLIN Line Item Detail)
  - Web research based on supplier providing services

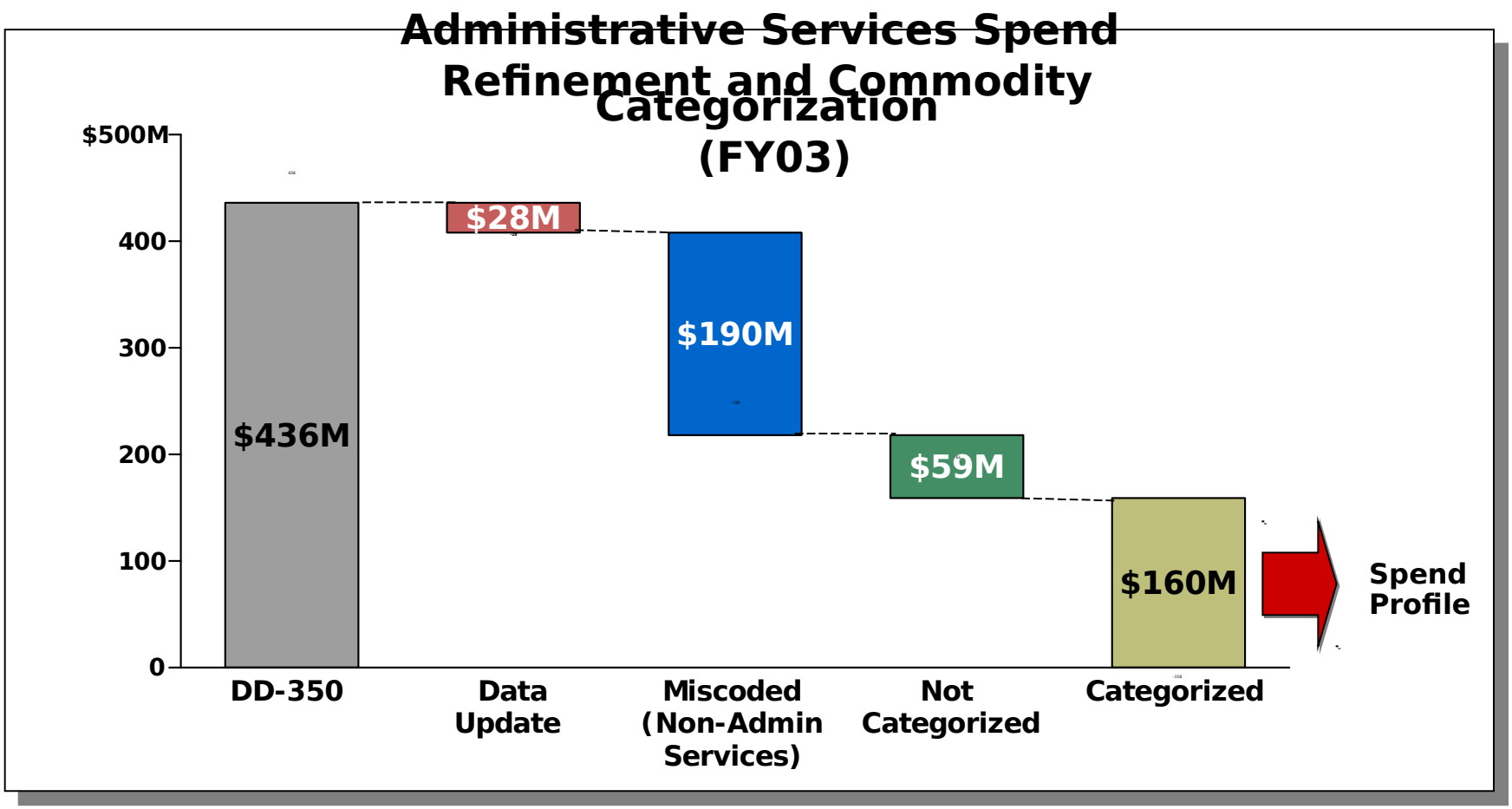
The analysis was ultimately used to categorize the unclassified spend into the commodity structure – additionally, a bucket for "miscoded" spend was used



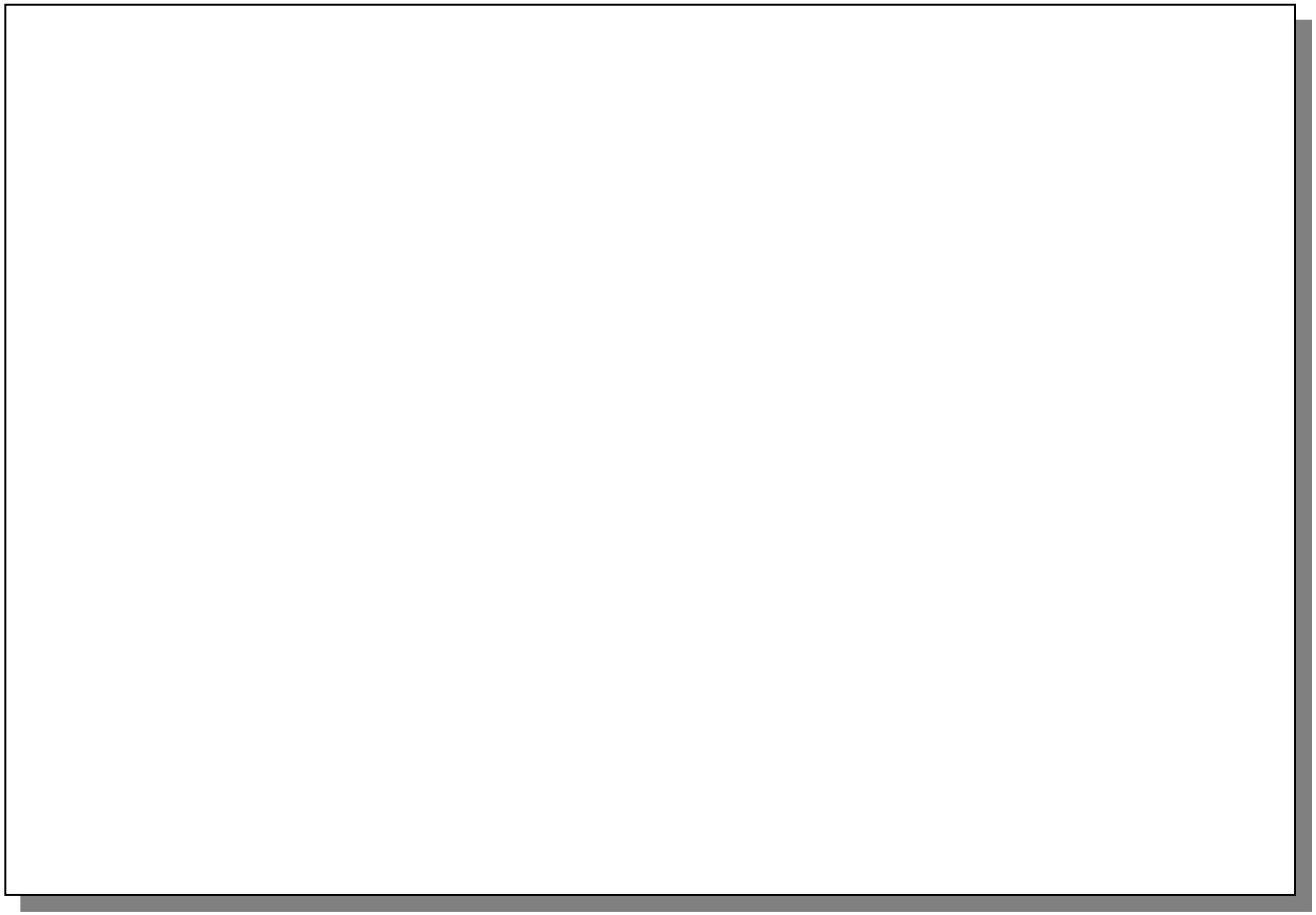
Administrative Services Commodity Structure



The cleansed and normalized data resulted in a total of $160 Million in Spend for Administrative Services



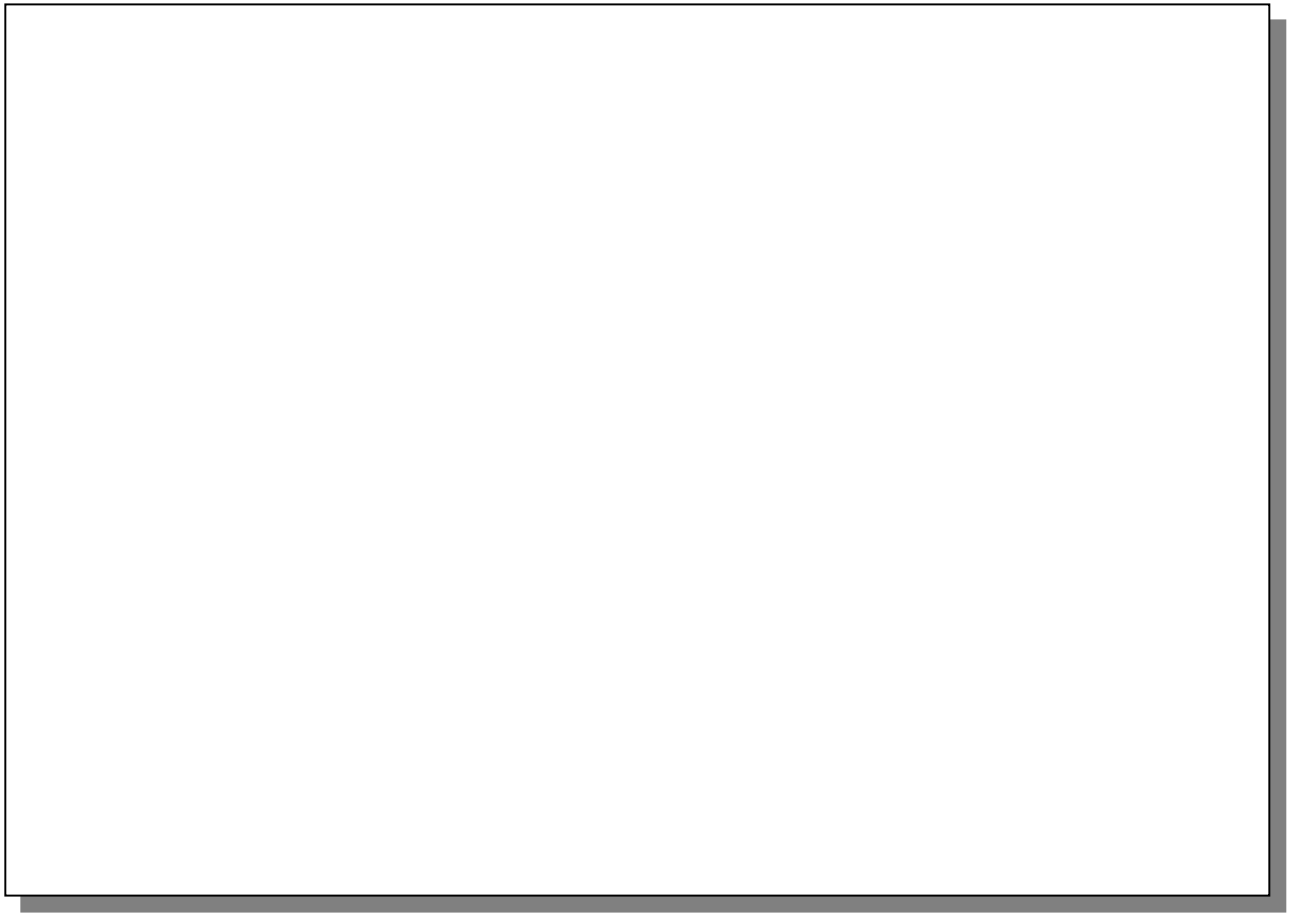
Clerical Support Services had the highest supplier fragmentation which generally leads to greater freedom of maneuver in pursuing sourcing opportunities



CLERICAL SUPPORT SERVICES EXHIBITS THE HIGHEST SUPPLIER FRAGMENTATION

- Clerical Support Services top 10 suppliers only 65% of the spend, which is the least of all the commodities
- Language Support Services is the least fragmented of the commodities, with the top 10 suppliers controlling 99% of the spend

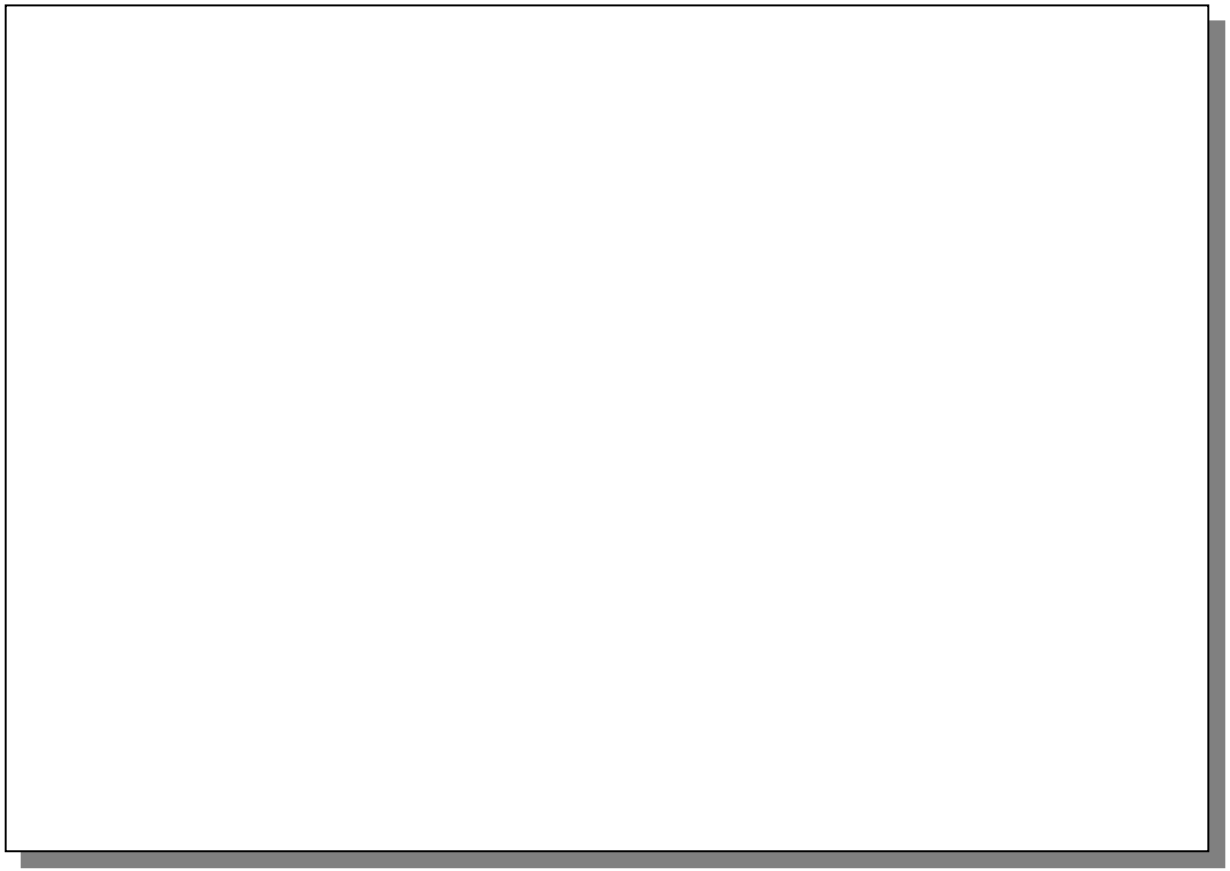
Clerical Support Services had the most favorable sourcing opportunity potential when compared by number of suppliers and spend by supplier across the commodities



HIGH NUMBER OF SUPPLIERS AND RELATIVELY LOW SPEND PER SUPPLIER IMPLIES GREATER SOURCING OPPORTUNITIES

- Clerical Support Services has the largest amount of suppliers providing services and significant but relatively low spend per supplier – opportunities for reallocation of spend among suppliers may exist
- Mail and Courier Services has a significant number of suppliers, but a relatively insignificant spend per supplier

Similar to the Supplier Spend Analysis, the Contract Spend Analysis reveals Clerical Support Services to have the greatest sourcing potential



LARGE NUMBER OF CONTRACTS AND RELATIVELY LOW BUT SIGNIFICANT SPEND PER CONTRACT IMPLIES GREATER SOURCING OPPORTUNITIES

- Clerical Support Services has the largest amount of contracts and significant but relatively low spend per contract
- Language Support Services has significantly less contracts than the other commodities, while also maintaining very high average spend per contract

Clerical Support Services spend analysis by suppliers reveals key questions to address that help frame sourcing opportunities

- **How does pricing (e.g. mark up rates) vary across contracts?**
- **How do contract terms vary across contracts?**
- **Are contracts structured in a way that is aligned with promoting quality?**
- **Can individual contracts, for example with 8(a) suppliers, that can be leveraged across the services?**
- **Do end-user requirements allow for the substitutability of contracts (if appropriate)?**
- **Are there multiple contracts with the same supplier?**

Clerical Support Services spend analysis by suppliers reveals key questions to address that help frame sourcing opportunities

- **How do the procurement, contracting, and contract management processes vary across suppliers?**
- **What are the opportunities for improving the procurement, contracting, and contract management processes?**
- **Which suppliers are part of the small business program(s)?**
- **Are there opportunities for volume shifts among suppliers not part of any small business program?**
- **When was the last time competitive bidding was used to ensure the best quality at a competitive price?**
- **Do suppliers' capabilities vary significantly or to what degree are they interchangeable?**
- **Are the same suppliers used across services?**

Clerical Support Services spend analysis by suppliers reveals key questions to address that help frame sourcing opportunities

- **To what degree do contracting offices collaborate on meeting the needs of end users?**
- **Do contracting offices compare price (e.g. mark-up rates) to ensure competitive pricing?**
- **Do contracting office collaborate on contract terms that enhance the quality of delivered services?**
- **Which contracting offices are key to identifying sourcing opportunities based on representing a significant proportion of the spend?**

Market Analysis

The Next Big Step

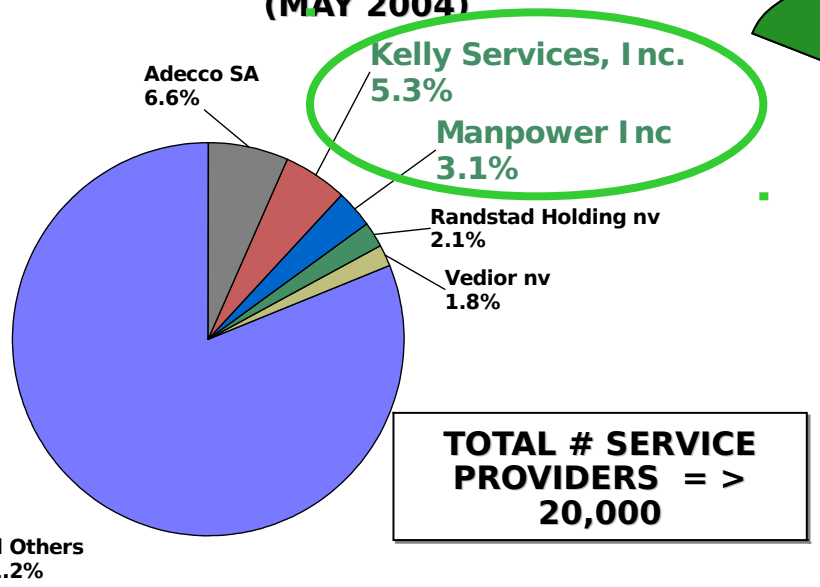
What is Market Analysis????

- Not your traditional “sources sought”
- Not looking only at your current/past contracts
- Labor intensive
- Commercial business analysis
- Can your spend influence the market?

Temporary Service Cost Drivers

KELLY AND MANPOWER, AMONG THE LARGEST PLAYERS IN THE US MARKET, …

CONTRACT LABOR SERVICES US REVENUE SHARE (MAY 2004)

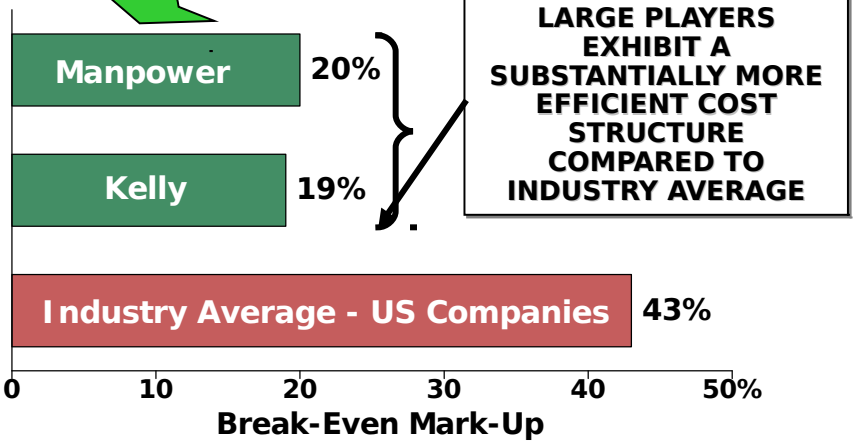


TOTAL # SERVICE PROVIDERS = > 20,000

Source: IBIS, Temporary Help Services in the US, May 2004

… EXHIBIT A BREAK-EVEN MARK-UP OF APPROXIMATELY 20%, SUBSTANTIALLY LOWER THAN THE INDUSTRY AVERAGE

COMPARISON OF BREAK-EVEN MARK-UPS INDUSTRY AVERAGE VS LARGEST US PLAYERS (2004)



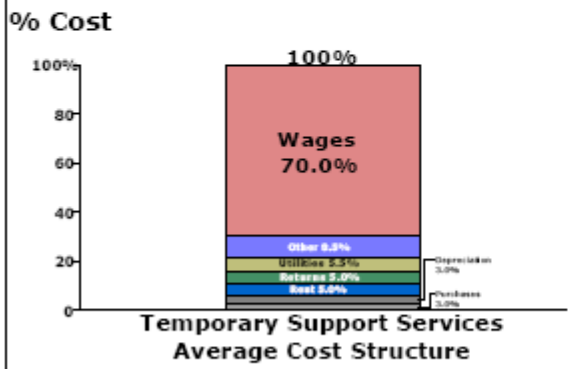
LARGE PLAYERS EXHIBIT A SUBSTANTIALLY MORE EFFICIENT COST STRUCTURE COMPARED TO INDUSTRY AVERAGE

Source: CSFB, Global Services, March 2004; CIBC, Manpower Equity Research, April 2004, Censeo analysis

Do our incumbents have favorable cost structure to meet our requirements with high levels of service at comparably lower prices/ mark-ups?

UNDERSTANDING SUPPLIER COST DRIVERS IS INTEGRAL TO IDENTIFYING RELATIONSHIP-BASED SOURCING LEVERS

THE COST STRUCTURE OF CONTRACT LABOR SERVICES FIRMS IS DOMINATED BY WAGE RATES PAID TO CONTRACT EMPLOYEES



COST DRIVERS CAN BE IDENTIFIED FOR BOTH THE WAGES PAID AS WELL AS OTHER COST ELEMENTS …

SUPPLIER COST DRIVERS

- Labor category skill level
- Local labor market
- Economic cycle
- Purchase volume
- Assignment duration
- Proposal & bidding process requirements
- Contract management
- Ordering process
- Invoicing process
- Other customer requirements

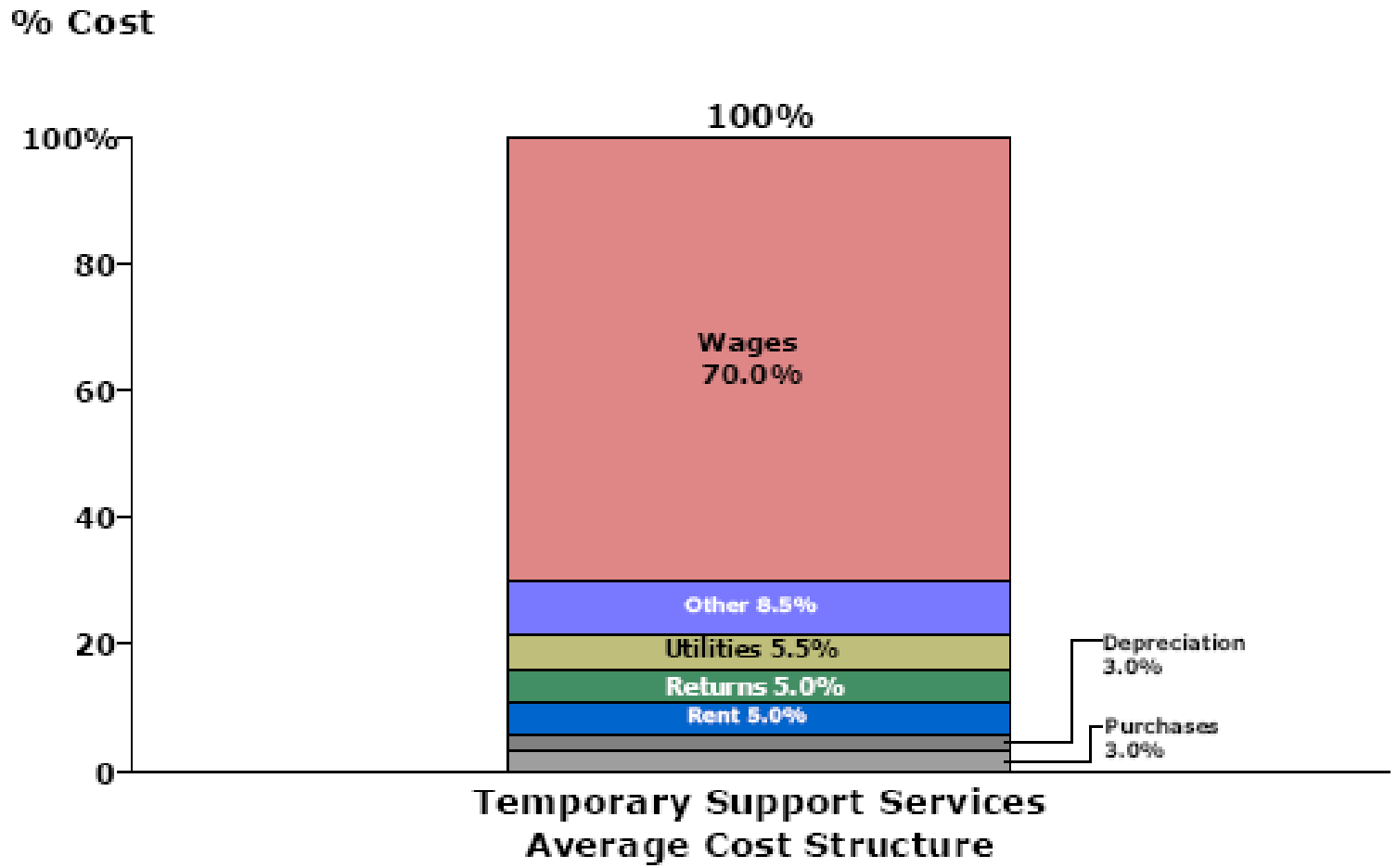
… RESULTING IN THE IDENTIFICATION OF POTENTIAL SOURCING LEVERS ASSOCIATED WITH HOW WE DO BUSINESS WITH SUPPLIERS

POTENTIAL SOURCING LEVERS

- Accuracy in labor category & skill level specification.
- Improvements in overall proposal & bidding process.
- Improvements in the "pay-to-procure" process, including use of technology to facilitate joint cost reductions.

These levers were explored with both the CO and end-user communities

CONTRACT LABOR SERVICES
AVERAGE COST STRUCTURE
(MAY 2004)



Source: IBIS, Temporary Help Services in the US, May 2004

Sourcing

The “Almost Final” Step

What is Sourcing????

- Commodity council hand-wringing
- Lots of discussions
- Sweat
- Politics
- Tough decisions ….. that

Lead to a final acquisition strategy

Then What????

- Award the contract(s)
- Develop a monitoring system
- Oversight ……..

And you start the whole process over again!

Current Federal Activities

GSA Initiatives

- GSA partnering with Dept of Treasury launched Federal Strategic Sourcing Initiative (FSSI) Nov 16, 2005
- Chartered by CAO Council
- Purpose is to test viability of strategically sourcing across federal agencies, establish mechanisms for achieving savings, value, and socio-economic participation, share best practices and avoid duplication of efforts

FSSI Purpose

- Share good practices and build the strategic sourcing community of practice (people, process and technology)
- Learn lessons applicable to future strategic sourcing efforts at federal or agency levels
- Avoid unnecessary duplication of effort in pursuing OMB Strategic Sourcing Initiative
- Test ability to strategically source across federal agencies
- Establish mechanisms to increase savings, value, and socio-economic participation
- Build a future vision and path forward

FSSI – What it is not about

- **Soliciting guarantees**
- **Mandatory participation**
- **Mandatory use of teams' solutions**
- **Relieving agencies of the internal steps/actions they must take to address OMB policy**
- **Satisfying 100% of each agency's specific requirements for a commodity; we will focus on a collaborative solutions that meet the consensus requirements (80/20 rule)**

FSSI Teams

- **IT -- Gale Greenwald, gale.greenwald@gsa.gov , (703) 306-6709**
- **Office Supplies -- Sue McIver, marilyn.mciver @gsa.gov, (703) 605-2688**
- **Wireless Handheld Devices and Services -- Paulette Gemmer, paulette.gemmer@gsa.gov, (703) 306-6305**
- **Copiers – Mark Dunkum, mark.dunkum@gsa. gov, (703) 605-9205**
- **Domestic Delivery Services – Rebecca Koses, Rebecca.koses@gsa.gov, (703) 605-5606**

File Edit View Insert Format Tools Slide Show Window Help
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Reviewers... Reply with Changes... End Review...

FSSI Approach – Quick Hits Plan

Dec 05	Jan 06	Feb 06	Mar 06	Per Plan	Per Plan
Form Team	Profile Commodity	Analyze Market	Develop Commodity Strategy	Issue RFx & Negotiate	Implement & Manage Performance
Entry Criteria: ▪ FSSI Charters team **Exit Criteria** ▪ Team membership stable ▪ Team Goals approved ▪ Meeting logistics agreed ▪ Team ground rules documented ▪ High level project plan in place ▪ Signed CC charter	**Entry Criteria:** Signed charter **Exit Criteria** ▪ Refined/ validated commodity definition (in/out items) & spend ▪ Current contracts inventory ▪ Current Commodity inventory ▪ Understand requirements ▪ Current socio-economic content	**Entry Criteria:** ▪ Signed charter and/or ▪ Approved Commodity Profile **Exit Criteria:** ▪ Completed analysis of industry trends ▪ Supply and demand levers, potential new suppliers/ sources ▪ Negotiation levers	**Entry Criteria:** ▪ Approved Commodity Profile ▪ Approved Market Analysis **Exit Criteria:** ▪ Commodity Management Plan approved by SSWG including detailed project plan for acquisition, implementation milestones, commodity performance measures, communications, training	**Entry Criteria:** Approved Commodity Management Plan **Exit Criteria** ▪ Contract award	**Entry Criteria:** Approved Commodity Management Plan **Exit Criteria** ▪ Lessons learned documented (prior to commodity strategy refresh) ▪ Contract closeout

to add notes
AutoShapes
Slide 9 of 16 OPE Master Slides

Other Agencies

Department		Office Supplies	Cell Phones	IT Products*	Copiers	Clerical Support	Office Equipment	Mail	IT Support	Medical Services	Supplies/Bearings	Custodial Services	Pilot Doc Management	Supplies-Mechanical	Energy	Transportation	Vehicles	Weapons / Ammunition	Uniforms	Aviation / Boats	Realty Specialists	Contractor Specialists
Labor			X	X	X					X												
DOD			X			X					X											
HHS		X		X			X					X	X									
Navy		X	X				X															
AirForce		X		X					X					X								
Commerce			X						X													
DOT		X		X																		
Treasury		X	X	X	X			X														
GSA		X	X		X																X	X
DHS				X	X	X		X	X						X	X	X	X	X	X		

NNSA Spend Analysis
An Alternative Perspective

NNSA Weapons Modification Supply Chain

SUPPLY CHAIN: *An evolutionary approach directed at full collaboration and integration of processes using technology and best practices to improve the efficiency of the NNSA Enterprise (including Site Offices; Service Center; Headquarters; and Laboratory, Plant, and Test Site operations)."*

National Nuclear Security Administration

11/03

NNSA Integrated Supply Chain Vision

FULLY INTEGRATED SUPPLY CHAIN | PLANNING/ FORECASTING/SPEND SYSTEM LINKED | DEMAND FLOW SYSTEMS | INTEGRATED SYSTEMS WITH SUPPLIERS | BALANCED SUPPLY/ DEMAND | STRUCTURED CAPACITY

NNSA Supply Chain Management Integration Tools

SUPPLY CHAIN EDUCATION | DEMAND MANAGEMENT | PLANNING SYSTEMS | ERP | SUPPLY MANAGEMENT | MASTER SCHEDULING | e PROCUREMENT | SPEND ANALYSIS | LOGISTICS

Integrated Contractor Purchasing Team

Strategic Sourcing Vehicles for Eligible Contractor Use

http://bechteljacobs.com/icpt/eligibility_list.html

For the past decade, a team of representatives from DOE FMC contractors, designated as the Integrated Contractor Purchasing Team (ICPT), have been formally collaborating to identify leveraged buying opportunities for commonly used goods and services, conduct spend analyses across the contractor complex on those goods and services, negotiate and establish Agreements that can be used by all FMC's, obtain leveraged savings for the DOE at substantial discounts from commercial/market prices, monitor usage of established Agreements, administer Agreements oversee performance by BOA subcontractors, and report results to the DOE and NNSA Senior Procurement Executives. The ICPT consists of an Executive Steering Council and product teams that are individually chartered as new strategic sourcing opportunities for certain commodities and services are identified. Senior DOE and NNSA Procurement Managers are members of the ICPT Executive Steering Council. To date, the ICPT has awarded over 50 Agreements for a wide-range of goods and services, including analytical laboratory analysis to computer hardware/software, office supplies, scientific supplies, tools, paper products, e business communications.

NNSA Spend Analysis Project Background

- **Over 80% of NNSA's funds are expended by eight M&O contractors**
- **Federal expenditures negligible compared to M&O spend**
- **Jan 2004 – NNSA SPE launched the NNSA Spend Analysis multi-site team**
- **Team Objectives:**
  - **Develop a process that enables NNSA Procurement organizations to perform standardized spend analysis for historical and forecast spend.**
  - **The spend analysis will be used to identify strategic sourcing opportunities across the NWC.**
- **All Site Kick-off – April, 2005**
- **Pilot live – June, 2005**
- **Data cleansing – Aug thru Dec, 2005**
- **Sites' data validation training and testing – Jan thru April, 2006**
- **Production instance live on NNSA portal with 8 sites data – April 14, 2006**

Project Objectives

- **Aggregate and leverage the $3B historical and forecast annual spend across NNSA to attain price reductions**
- **Enable NNSA Supply Chain maturity path (Enterprise-wide strategic sourcing)**
- **Improve supplier allocation of subcontractor awards**
- **Provide supplier management tools to track supplier performance and support strategic sourcing**
- **Provide common access through the NNSA portal to build upon success to date**
- **Implement 2 integrated modules:**
  - **Ariba Analysis – mini-data warehouse for reporting & customized dashboards**
  - **Ariba Data Enrichment – module to normalize data among the sites**

Step 1: Spend Analysis - Definition

- **An NNSA-wide reporting tool and decision support system for enabling strategic sourcing**
- **Provides the tools for NNSA Supply Chain to analyze and manage the supply-base at a global level**
- **NNSA required functionality**
  - **Total spend leverage**
  - **Total demand (forecast)**
  - **Supply base rationalization**
- **Other functionality available**
  - **Strategic and tactical contracts**
  - **Supplier performance**

Enables significant NNSA-wide cost savings

NNSA's Strategic Sourcing Steps to Success

Strategic Sourcing Process

1. NNSA Spend Analysis

- Enterprise spend reporting and visibility
- Meaningful info across sites
- Identify and target savings for key categories of spend

2. NNSA-Wide Sourcing

- Organizational structure
- Enterprise-wide contracts for targeted commodities
- Global supplier partnerships
- Leveraged pricing using total enterprise-wide spend

3. eProcurement Systems

- Req-to-Pay systems in place to automate the process
- Repositories for contract catalogs for sites to shop
- Direct web link with partnered suppliers to transmit transactions

4. Track Performance and Savings

- Spend tracking via Spend Analysis initiative
- Track contract compliance
- Communicate expectations to suppliers
- Feedback performance
- Leverage supplier performance for sourcing and contract execution

Project Tasks Accomplished

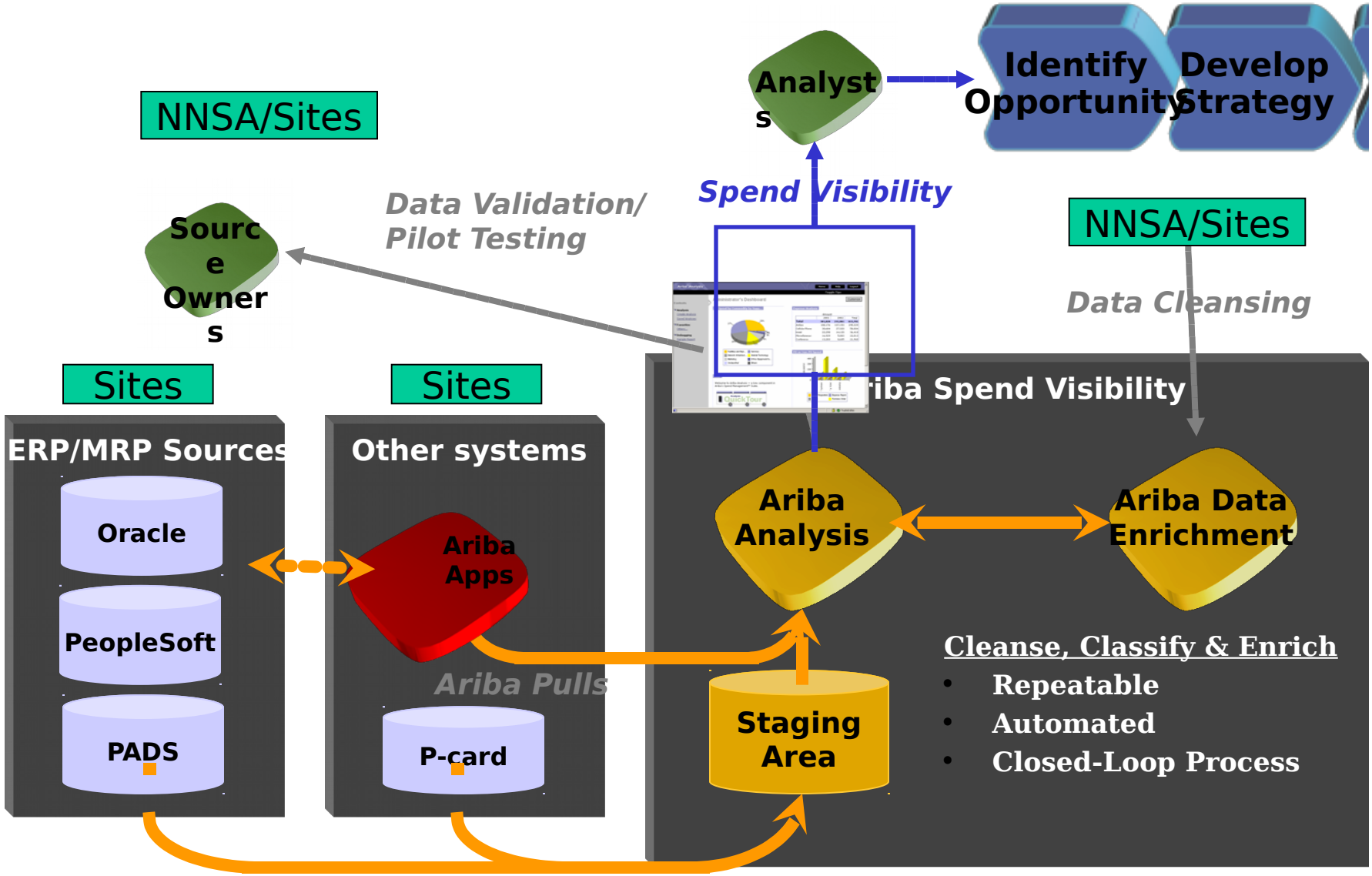
- **8 sites 3-year historical commitment and invoice data validated by sites and in production – “Live” on 4/14/06**
- **All sites cleansed data loaded into production**
- **Production instance link available in NA63 Portal, Spend Analysis page**
- **NNSA and site reports published in public folders in Analysis**
- **User training docs on portal**
- **“Live” Webex training sessions available to sites for general users**
- **Process map drafted for monthly maintenance**
- **6 sites with remote access to KCP’s master instance of Ariba Data Enrichment to support monthly data cleansing**

Output :

✓ ***3-year historical NNSA spend data normalized & consolidated in a single repository***

✓ ***Leveraged spend data accessible to users at all sites through the NNSA portal***

Spend Analysis Infrastructure



Next Steps

- **Sites perform additional remote data cleansing to increase % of site data cleansed**
- **Add contract fact table to reports**
  - Define “Contracts” universally for sites to facilitate data mapping
  - Optimize the selection of report fields to enhance the user interface
  - Upload sites contract data, perform validation testing
- **Develop and add forecast fact table to reports**
  - Devise business process for sites to collect data from site budget coordinators or other “pockets” of forecast information at sites since data not contained in source systems
- **Implement the monthly data maintenance process**
  - Monthly thereafter by 3rd-5th day of the next month

What is Ariba Data Enrichment?

ADE is a module that normalizes the sites disparate descriptions and supplier names to a common standard using grammar technology.

Performs the following:

- Classifies each row of data to a taxonomy - the United Nations Standard Product and Services Classification (UNSPSC)

  - Segment
  - Family
  - Class
  - Commodity

- Normalizes output from Analysis (sites raw data) which is then re-loaded into Analysis after normalization to report by “enriched” commodities and suppliers
- Extracts enriched attributes about suppliers from a supplier reference table of 20M suppliers that can be viewed in the reports in Analysis
- Cleanses text of unwanted characters, spelling errors, bad punctuation

Example of UNSPSC Normalization

All (3) three description have the word ‘Printer’, however, ADE can distinguish the difference given the context of surrounding words.

Product Description	Category	UNSPSC Code
Stylus ® Color 860 Ink Jet Printer	Inkjet Printers	43.17.25.09
Premium 8 ½ x 11” Ink Jet Printer Paper, White	Printer Or Copier Paper	14.11.15.07
Letter size paper tray for HP Color Ink Jet Printer, 250 sheet	Printer Trays	44.10.17.05

Interesting Facts From NNSA Spend Analysis

Top 5 UNSPSC categories of NNSA spend over last 3 years:

1. **Engineering & Research & Technology Based Services - $1,367B**
2. **Building, Construction, & Maintenance Services - $912M**
3. **IT, Broadcasting & Telecommunications - $731M**
4. **Management & Business Professionals & Admin Services - $688M**
5. **National Defense, Public Order, Security, Safety Services - $357M**

Fact about top UNSPSC Category - Engineering, Research & Technology Services:

1. **80% of NNSA spend for this category is with 7% of the suppliers for this commodity – (152 of 2040 total suppliers)**
2. **Top suppliers for this commodity: General Atomics, KTECH Corp., Boeing, Facilities Engineering Services**